

RatingsDirect®

Summary:

Augusta, Maine; General Obligation

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Summary:

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Credit Profile

US\$7.645 mil pension oblig rfdg bnds ser 2014 due 07/30/2034

Long Term Rating

AA/Stable

New

US\$0.75 mil GO bnds ser 2014 due 07/30/2034

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to Augusta, Maine's series 2014 general obligation (GO) pension refunding bonds series A and GO series B bonds. Standard & Poor's also affirmed its 'AA' rating on the city's outstanding GO debt. The outlook is stable.

The rating is based on our local GO criteria released Sept. 12, 2013.

The rating reflects our view of the city's:

- Adequate economy and role as the state capital and regional economic center;
- Strong management conditions with "good" financial management practices under our Financial Management Assessment (FMA) methodology;
- Very strong budgetary flexibility with fiscal 2013 audited available reserves in excess of 20% of expenditures;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Strong budgetary performance and consistently balanced operations; and
- Very strong debt and contingent liabilities profile, bolstered by low debt-to-market value ratios and aggressive amortization.

The bonds are GOs of the city with payment of debt service not restricted to a particular revenue source. The city has the power to levy ad valorem property taxes for bond repayment, subject to the limitations of the state's LD-1 legislation. The purpose of this refunding is to advance refund the city's pension obligation bonds. The city will extend the maturities of its current obligations, thus lowering debt service carrying charge. The intent is to create the capacity to allow for additional debt the city anticipates issuing in the 2015 calendar year.

Adequate economy

As the seat of state government, Augusta has an adequate economy rooted in governmental services, retail, and real estate. Spread across 57.35 square miles, the city's roughly 18,560 residents have a projected per capita effective buying income of 86% of the national level. Both the offices of the state government, which employs 5,575, and Maine General Health, which recently opened a new \$312 million hospital in Augusta, cater to the regional economy. The city, however, is removed from tourism and seaport enterprises as a land-locked capital, and is not tied into any broad and diverse metropolitan area. Unemployment in Kennebec County has been stable at 6.3% as of 2013.

Market value in Augusta has stabilized following modest decreases during the recession. Year-over-year total market

value for fiscal 2014 is up to \$1.6 billion, or approximately \$85,850 per capita. Based on our regional forecasts, we expect modest economic growth compared with national levels. Recent data indicate that median home prices are improving in the broader New England region, and that housing starts are gaining traction. However, we note economic growth in Maine has traditionally lagged both its regional and national peers.

Strong management conditions

Augusta's management conditions are strong, with evidence of future capital planning, frequent budget reviews, and reserve and liquidity policies to protect against any volatility in revenues or expenditures. City officials undertake monthly reviews of cash flows and report budget variances to the city council monthly. A three-year forecast and a five-year capital plan are maintained and updated, demonstrating a forward-thinking budgeting process. Overall, we consider the city's management practices "good" under Standard & Poor's FMA methodology, indicating that formal practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Very strong budgetary flexibility

Augusta's budgetary flexibility is very strong, with available reserves at 21.6% of operating expenditures in fiscal 2013. The city's fund balance has grown in recent years, from \$8.8 million in 2011 to a projected \$11.9 million in 2014, and we believe these balances will likely be sustained at levels greater than 15% over the next two fiscal years. Moreover, we believe Augusta could raise taxes if necessary, but has avoided doing so to keep the tax rate stable.

Very strong liquidity

We feel very strong liquidity supports Augusta's finances. With more than \$16 million in cash and equivalents, total government available cash is at 23.7% of total governmental fund expenditures and at 461% of debt service. Further, based on past issuance of debt, we believe that the city has strong access to capital markets to provide for liquidity needs if necessary.

Strong budgetary performance

We feel Augusta's budgetary performance is strong overall, with a surplus of 0.4% for the general fund and a surplus of 0.3% for the total governmental funds in fiscal 2013. The general fund surplus has averaged 0.8% since 2007, and city officials are anticipating at least an additional \$1 million surplus in 2014. In our view, there is little evidence that performance will deteriorate. Nonetheless, we see a marginal risk in reduced state aid, which could affect performance as 34% of revenues come from the state. Property taxes account for 57% of revenues.

Looking ahead, we expect Augusta's operating performance to remain in line with years past, as long as management remains prudent in managing future costs. Based on our macroeconomic forecasts (please see the article "U.S. State And Local Government Credit Conditions Forecast," published April 7, 2014, on RatingsDirect), credit conditions in the New England are improving, which should cater to a stable budgetary environment.

Very strong debt and contingent liabilities

Augusta's debt and contingent liabilities profile is, in our opinion, strong. The city uses a high number of tax-increment financing districts, which have been able to generate sufficient revenue to support its capital budget. Augusta has roughly \$34.1 million in total direct debt; of that amount, we calculate roughly \$2.1 million is self-supporting enterprise debt. Net direct debt to total governmental funds revenue and total governmental funds debt service to total

governmental fund expenditures are 54.4% and 1.6%, respectively. The city has near-term debt issuance plans that could weaken its score, but approximately 76% of the existing debt is to be repaid over 10 years and overall net debt is 2% of market value, both of which we view as credit strengths.

The city participates in the Maine Public Employees Retirement System. Last year, Augusta contributed 100% of its annual required pension contribution. The city funds its other postemployment benefit (OPEB) liability on a pay-as-you-go basis, and contributed \$1 million in fiscal 2013. As of the most recent valuation date, Jan. 1, 2011, the city's unfunded actuarial accrued OPEB liability was \$37.4 million. The combined pension and OPEB contributions represented 3% of the total government expenditures in fiscal 2013, an exposure we consider manageable for the city.

Strong institutional framework

We consider the Institutional Framework score for Maine strong.

Outlook

The stable outlook anticipates the underlying economy will remain stable and at a level enabling the city to maintain its strong budgetary performance and very strong budgetary flexibility over our two-year outlook horizon. Should the city sustain its strong budgetary performance, there could be upward pressure on the rating.

We believe debt and liabilities factors will remain stable as pension and OPEB liabilities are modest. We do not expect to lower the rating unless Augusta's budgetary performance and flexibility deteriorate significantly.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

- Institutional Framework Overview: Maine Local Governments

Ratings Detail (As Of July 23, 2014)		
Augusta GO bnds		
Long Term Rating	AA/Stable	Affirmed
Augusta GO bnds dtd 02/01/2003 due 10/01/2003-2013 2017		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Augusta GO (MBIA) (SEC MKT) (MBIA of Illinois)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Augusta GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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